DTP VIEWS

Autumn 2017

New Value for Money standard signals the end of inertia

– Sam McGrady, Director, DTP

Last year, I wrote a blog post on the issue of Value for Money and the social housing sector. In it, I suggested the idea of league tables might be creeping onto the government's agenda. Unexplained variations in operating costs between providers was causing concern at the HCA. And sooner or later, a bright light would be shone on our efficiency record.

The events of the summer, including the General Election, the tragedy of Grenfell and, for a while, a general sense of inertia, had the effect of delaying that moment. But with last month's announcement of a major review of the HCA's Value for Money standard, it moved a step closer.

So what does it mean and what should the sector's response be?

Firstly, there's much to welcome in the review and the sector will have a chance to respond through a formal consultation which will run up to December 20th. The first most obvious change to note is that alongside a shorter, sharper standard, sits a new Code of Practice (COP) which is intended to shine a light on what 'compliance' could look like. Immediately, we can see that this could cause confusion – should providers simply focus on complying with the actual Standard, or ought the COP also be considered? (particularly challenging when some of the language in the COP is somewhat prescriptive – 'must' rather than 'could'!).

The other key change involves a move away from a narrative-based, bespoke self-assessment of performance, to one more clearly-defined by a specific and new set of metrics. There are seven metrics proposed by the HCA, which are largely financially-based and will allow comparisons to be drawn between providers' performance. Crucially, these have to be supplemented by providers' own VFM metrics, which must derive directly from their corporate objectives, and which boards must set, monitor, challenge when not achieved and report on annually in the statutory accounts along with the HCA metrics. This new approach might not be called league tables, but in future there will be publicly available sets of figures which will provide a snapshot of how individual providers and the sector as a whole are performing.

A more data-based approach was in many ways inevitable, given that the HCA is first and foremost an economic regulator. It has to convince government that the social housing sector is maximising efficiencies and delivering best value for the taxpayer. It can't do that without some numbers, and the previous self-assessment approach simply didn't deliver enough comparable information.

Other key aspects of the new approach to note include an explicitly holistic approach to VFM – spanning the whole business, not just social housing, with a robust business case needing to be made for investment in non-social housing activities – and the need for Boards to 'strike an appropriate balance between investment in existing stock, improvements in services for tenants, and investment in new development'. I think this is a direct response the Grenfell tragedy and should be welcomed.

It's also clear that much has not changed – providers must understand their costs, how they compare and what drives them; equally maximizing the use of all assets is expected. The ongoing focus on risk remains, and in particular the HCA strikes a note of caution regarding non-social housing activity needing to achieve a balance of risk and reward.

We now at least have clarity, and providers know they will have to carefully review their strategic and operational approach to Value for Money. The new standard comes in next April and we will have time to consider how we respond.

The implications for boards are particularly significant. They will have a major role to play in monitoring and reporting performance against the HCA and their own VFM metrics. Decision making will, in many cases, need to be more robust, and a rigorous appraisal of options undertaken. Other legal and governance structures and delivery models will need to be regularly considered. And where underperformance is identified, strategies will need to be developed to address this.

Ultimately, this could be good for governance. The buck really will stop with boards in future, ensuring much-improved accountability and transparency.

But providers need to be given opportunities to provide some context, and explain their data. Somewhere along the line we need to find a happy medium between number crunching and more nuanced explanation. On the one hand, that is where the IDA (In Depth Assessment) comes in, which is still the key method of assessing compliance on VFM. However, IDAs for most come but every three or four years, so it will be interesting to see if the consultation throws up a desire for providers to include narrative alongside their reported metrics.

A good overview of the new standard can be provided by the 'three Es' which appear regularly throughout the draft document – economy, efficiency and effectiveness. The latter is significant, as it suggests there may be a willingness to go beyond simple economic data; something which will be welcomed by all in the aftermath of Grenfell.

Overall the jury is out on how the new Standard will play out. The devil, as always, will be in the detail. Given the existing Standard has been in place for five years, a review was overdue. We should all be watching developments very closely. Inertia will not be an option.